lapp

Local Authorities
PENSION PLAN

2000 Annual Report

securing your future, together

Local Authorities
PENSION PLAN

securing your future, together

MISSION

LAPP delivers on the pension promise - high quality, secure pension benefits and services.

VISION

LAPP will be the leading public pension plan in Canada.

Plan Profile

LAPP was established in 1962 as a defined benefit pension plan for employees of Local Authorities in Alberta. These include cities, towns, villages, municipal districts, hospitals, colleges, school boards and many other public sector organizations.

The Provincial Treasurer is currently the legal trustee of the Plan, which is governed by a 14-member Board of Trustees. The Board includes six employee representatives, six employer representatives and one representative each from retirees and government. LAPP Corporation is managing the transition to a new Plan that will be independent of government. LAPP serves 85,152 active members, 13,170 deferred members, 27,124 pensioners and 396 employers. The Plan is financed by employee and employer contributions and investment earnings of the LAPP Fund.

The Fund has a diversified investment portfolio of fixed income securities such as bonds and treasury bills, domestic and foreign stocks, and real estate.

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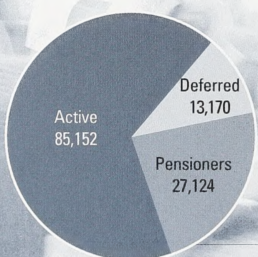
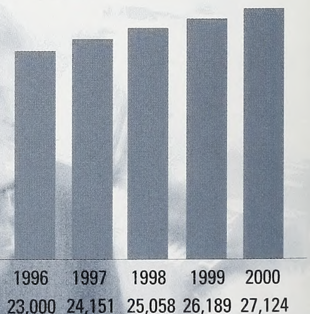
Membership, December 31, 2000

TOTAL 125,446



Membership increased in 2000 by 10,573. Approximately half of the new members were transferred from the Public Service Pension Plan. Retirees currently make up 22% of membership. This proportion is expected to rise as baby boomers begin to retire.

Pensioners



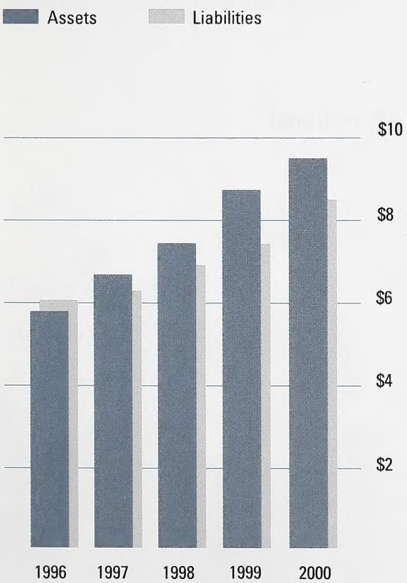
Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2000

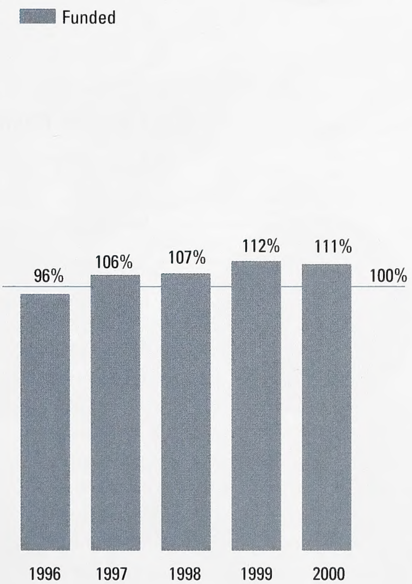
($ thousands)

Net Assets Available for Benefits	2000	1999
Net assets available for benefits	$ 9,353,523	$ 8,780,658
Asset fluctuation reserve	(58,000)	(461,700)
Actuarial value of net assets available for benefits	9,294,723	8,318,958
Accrued Benefits		
Actuarial value of accrued benefits	8,410,900	7,438,600
Actuarial Surplus	$ 883,823	$ 880,358

Financial Progress ($ billions)



Funding Status



Highlights

Net assets available for benefits, before the asset fluctuation reserve adjustment, increased by 7% to $9.354 billion in 2000.

Accrued benefits (liabilities) increased by 13% to $8.411 billion.

Accrued benefits increased more than assets in 2000 due to lower investment returns and to Plan improvements introduced during the year.

To reduce volatility, year over year changes in the market value of assets are smoothed over a three-year period. An asset fluctuation reserve is used to stabilize the surplus over the long term.

As a result of using the asset fluctuation reserve, the actuarial surplus increased slightly to $884 million in 2000, up from $880 million in 1999.

Although there have been exceptions in individual years, over the long term, investment returns have exceeded the required rate used by the actuary in determining the funding requirements of the Plan.

As a result, assets have grown faster than liabilities and the financial position of the Plan has improved significantly over the past five years.

The Plan is in a surplus position and the funded ratio (actuarial value of plan assets to liabilities), which is a measurement of a pension plan's financial health, has increased from 96% in 1996 to 111% in 2000.

This represents a positive trend in securing the pension promise to Plan members.

Despite a slightly higher surplus in 2000, the funded ratio was reduced to 111% due to liabilities increasing at a slightly faster rate than assets.

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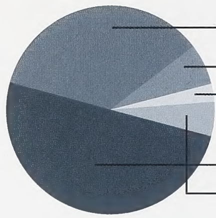
Highlights

LAPP's large size allows for cost-effective administration and investment management.

Plan expenses consisting of administration costs ($7,611,000) and investment costs ($9,475,000) totalled $17,086,000 in 2000 or $140 per member (1999: $16,587,000 or $148 per member).

With Plan assets over $9.4 billion, this equates to a total cost of 0.18% of assets under administration (0.08% for administration and 0.10% for investment management services).

Plan Expenses



Administration and Governance Costs – $63 per member

Alberta Pension Administration costs to administer the Plan – $6,043,000 or $50 per member

Governance expenses for overseeing the Plan – $1,090,000 or $9 per member

Restructuring costs to move LAPP to independence – $477,000 or $4 per member

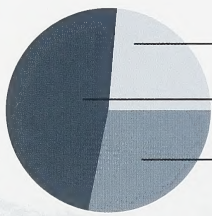
Investment Costs – $77 per member (netted out prior to calculation of investment returns)

Pooled funds management and custodial fees – $8,562,000 or $70 per member

Investment Management Division of Alberta Treasury costs to manage the Plan's funds – $913,000 or $7 per member.

Pension Contributions and Transfers ($ millions)

TOTAL $605.9



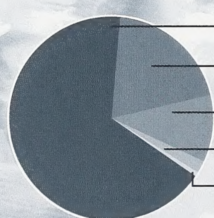
Employers $170.7

Transfers $291.5

Members $143.7

Pension Payments ($ millions)

TOTAL $427.9



Benefits $286.6

Transferred to ENMAX $85.7

Refunds to Members $45.7

Administration $8.5

Transfers $1.4

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Message from the Chair

ON BEHALF OF THE LOCAL AUTHORITIES PENSION PLAN (LAPP) BOARD OF TRUSTEES, I AM PLEASED TO SHARE WITH YOU THE RESULTS OF THE BOARD'S ACTIVITIES IN 2000.

Financial Results

The Plan's actuarial value of net assets available for benefits increased to almost $9.3 billion at December 31, 2000, up from $8.3 billion in 1999. For 2000, the Plan earned an overall 4.4% return on investments. Over the past four years, the Fund has earned an average compound rate of return of 10.2%, well above the 7.25% actuarial rate required to meet future pension liabilities. LAPP's 2000 rate of return reflects the negative impact of declining stock markets during the year. After almost a decade of positive double digit returns, global stocks fell an average of 11% in 2000.

LAPP's investment policy is structured to take advantage of the historically higher returns from stocks. Combined with the diversification effect of other asset classes, including bonds and real estate, this mix has produced competitive returns over the long-term. As a result, LAPP is financially sound, with an actuarial surplus of $884 million and a funding ratio (assets/liabilities) of 111%.

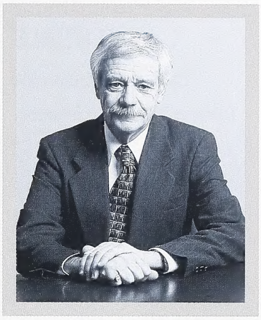
Asset Mix Policy

Investment policy is developed reflecting the long-term funding requirements of the Plan. An important objective is to optimize investment returns over the long-term, with the appropriate and prudent level of risk, to meet the ongoing financial obligations of the Plan. In this regard, LAPP reviewed its asset allocation policy in 2000 and made several changes to its asset mix as highlighted below.

Self Governance

The Board continues to strive toward self-governance to ensure employers and employees have control over our Plan. Early in 2000, the government prepared a working paper on a new governance structure for LAPP and presented it to all major employers, unions and employee associations.

Employer representatives will meet with union representatives in 2001 with a view to agreeing on a structure for the new Plan. The Board of Trustees supports the ongoing discussions and looks forward to achieving self-governance as soon as possible.

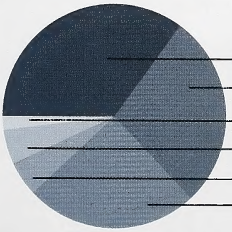


Bill Purdy
Board Chair

"The Plan's actuarial value of net assets available for benefits increased to almost $9.3 billion at December 31, 2000, up from $8.3 billion in 1999."

Policy Asset Mix

December 31, 2000



Highlights

Asset mix is the greatest determinant of a pension plan's investment return.

In 2000, changes to the policy asset mix were made to optimize long-term returns, reduce market concentration in Canadian stocks, and increase foreign diversification.

The Board increased the total equity weighting from 55% to 60%. The current mix is based on a split of 35% fixed income, 60% equity and 5% real estate.

To gain from diversification and capture the additional investment opportunities available globally, the Board increased the allocation in foreign stocks by 10% from 25% to 35% and reduced the allocation to the Canadian stock market by 5% to 25%.

The asset mix changes are expected to increase returns and reduce volatility over the long-term to meet the ongoing financial objectives of LAPP.

Message from the Chair

GUIDING PRINCIPLES AND GOALS

Be fiscally responsible

Operate in the best interests of stakeholders

Be fully accountable to stakeholders

Maintain a funded pension plan

Maintain stable contribution rates

Maximize investment returns within an appropriate and prudent level of risk

Maintain cost-effective administration services

Develop improved portability of benefits

Improve service to employees, employers and retirees

Communicate with all stakeholders in an open and timely manner

Plan Improvements

A number of Plan improvements were implemented in 2000. Vesting was reduced from five years of pensionable service to two years of membership. Commuted value is now paid on all years of service when a vested member terminates. Re-employment rules were eliminated, providing more flexibility to retired members. Finally, gender neutral tables are now being used for conversions on retirement. For more details, see the bottom of the next page. Generally, all groups of membership can benefit from these improvements: active members, deferred members and retirees.

The Board has also recommended a number of other changes to the Plan. Portability between plans is an important goal of the Board, and we have made recommendations to the Provincial Treasurer to improve reciprocal arrangements between LAPP and other public sector plans. We have also recommended a new definition of "spouse" to include same sex partners. We also hope to receive approval in 2001 to simplify certain options at retirement, including the "coordination" option.

Policy

In 2000, the Board began work on a new funding policy and a revised actuarial valuations policy. The funding policy will outline the principles and objectives intended to ensure that contributions to LAPP will fund the Plan appropriately at all times. Contributions will be set to maximize financial stability and minimize inter-generational cost shifting. The actuarial valuations policy will guide how often actuarial valuations are done, and lay out the principles for deciding on actuarial assumptions.

The continued surplus also necessitates a well-reasoned surplus policy, and the Board has begun work on this. Together, the funding policy and the surplus policy will help ensure financial stability while also meeting the needs of LAPP's members for a reliable and responsive pension plan.

The Board reviewed and revised LAPP's Statement of Investment Policy and Goals (SIP&G) in 2000. The statement documents the Plan's investment objectives, risk tolerance, asset mix, permitted asset classes and investments, limits, performance benchmarks and derivative use policy. The Board also developed a Statement of Investment Beliefs that sets out the fundamental principles and beliefs that guide investment management and form the basis upon which to develop an asset mix policy and investment manager structure.

Highlights

Operating Principles

LAPP will:

- conduct its business with trust and integrity;
- be jointly sponsored and jointly trusteed;
- deliver high quality pension benefits and services that reflect the stakeholders' needs;
- be open, accessible and accountable to stakeholders;
- be efficient and cost-effective;
- strive to be fully funded while maintaining stable contribution rates;
- seek superior long-term investment performance within responsible risk parameters; and
- be visionary, proactive and open to productive change.

Strategic Priorities

Governance:
Effectively manage the transition to independence from the Provincial Government; and ensure that LAPP's governance structures facilitate effective leadership of the organization.

Financial Stewardship:
Maintain the long-term financial viability of the Plan.

Relevant High Quality Products and Services:
Deliver timely high quality, customer focused and cost-effective pension products and services.

Message from the Chair

Planning
The Board prepared a new three-year business plan in 2000 and a three-year education plan for the Board members. Note the Board's guiding principles and goals on the previous page.

I would like to thank all Board members for their commitment to LAPP during this past year. On behalf of the Board, I would also like to thank the Provincial Treasurer, Board staff, Alberta Pensions Administration Corporation, and the Investment Management Division of Alberta Treasury for their respective efforts in managing LAPP.

Bill Purdy
Board Chair 2000
Local Authorities Pension Plan

LAPP Board of Trustees
Sitting, left to right: Elaine Noel-Bentley, Les Young, Bill Purdy–*Chair*, Margaret Johnson, Rick Blakeley.
Standing, left to right: Grant Robertson, Terry Cavanagh, Kenneth Balkwill–*Vice-Chair*, Richard West, Richard Martin, Tony Krivoblocki, Carl Soderstrom, Ben Boettcher, Sandra Weidner.

For further information about the LAPP Board of Trustees, see page 28 of this Report, or visit our Web site at www.lapp.ab.ca.

Highlights

Significant Plan Improvements in 2000 – Adding Value to LAPP

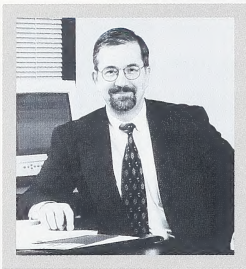
Members Vested after only two years of membership. Changes to vesting rules saw members becoming eligible to receive a monthly pension as early as age 55, after only two years of membership. This not only reduced the number of years for pension eligibility from five to two years, but also changed the requirement from pensionable service years to membership years. The added value of these changes was particularly significant for members working part-time, who now become eligible for a pension in a much shorter period of time, and for members who choose to leave the Plan who can now receive commuted value after only two years of membership.

Commuted Value includes all years of pensionable service. Prior to the Plan changes made in 2000, vested members under the age of 55, and therefore not entitled to receive a pension, who chose to take a commuted value payout when leaving the Plan, would receive commuted value for service after December 31, 1991 and a refund of only their contributions with interest for service before 1992. With the changes, both active members and those vested deferred members under 55 who had left employment under the Plan but chose to leave their account with LAPP, now qualify for commuted value on all service, including pre-1992 service.

Gender Neutral Tables used for 'conversions' on retirement. Previously, when gender specific tables were used, conversions to joint-life pensions from normal pensions were affected by the gender of the spouse, so that male members with female spouses often ended up with a lower pension than female members with male spouses. The change to use of gender neutral tables will now mean that the conversion will be equitable between men and women.

Re-employment Rules Eliminated. Previously, pension rules dictated that a pension would be suspended if a pensioner began working for a LAPP employer and was required to contribute to the Plan; began work in the three months immediately after retirement; or worked more than 84 days in a calendar year. The change to re-employment rules, effective January 1, 2001, added significant value to the Plan. It will mean that pensioners may again work for a LAPP employer and their pensions will not be suspended no matter when the work commences or how long the work continues. Although pensioners cannot re-join the Plan to earn additional pensionable service, they will have full RRSP room based on their employment income.

Message from the CEO



Ron Liteplo
Chief Executive Officer

"…our size allows for cost-effective administration and investment. In 2000, we welcomed 7 new employers and more than 10,000 new members…"

Keeping the pension promise in difficult times

In 2000, the financial markets ended nearly a decade of extraordinary gains with a year of exceptional turbulence. Most of the major equity market indices dropped significantly. LAPP demonstrated the strength of its size, and its diversity of membership and investments, by finishing the year with a small increase in our surplus.

Our foremost duty is to keep the pension promise. Two things enable us to do that.

First, our size allows for cost-effective administration and investment. In 2000, we welcomed 7 new employers and more than 10,000 new members, including 4,900 who were transferred from the Public Service Pension Plan.

Second, the investment policy adopted and closely monitored by the Board of Trustees ensures the diversification necessary to preserve our trust fund even in turbulent times.

Investments

Our Director, Pension Investments, M. Blake Walker, was hired in 2000. He worked closely with the Trustees during the year to preserve and enhance our investment processes. With his support and advice, the Board completely reviewed its Statement of Investment Policies and Goals to ensure a complete and sound framework for investing the trust fund aligned with our goal to maximize investment returns within an appropriate and prudent level of risk. Our asset mix policy was adjusted to increase investment in non-Canadian equities and real return bonds. Our review of our assets and projected pension liabilities indicated this will improve investment performance in the long-run. We hired an independent firm to report on investment cost-effectiveness; their first report will be presented to the Board in 2001.

Plan Improvements

Four long-awaited Plan improvements finally arrived in 2000, as noted in the Message from the Chair. In 2001 we hope to make progress on improving the portability of pension benefits between LAPP and other pension plans, and we will develop a policy for prudent use of future Plan surpluses.

Highlights

Welcome to our New Employers

Big Country Waste Management Commission

Lamont – Two Hills Business Development Corporation

Village of Barons

Whitecourt and District Public Library

Alberta Fire Training School

Cold Lake Ambulance Society

Alberta Irrigation Projects Association

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Improving Governance

In 2000, the Board of Trustees adopted a new three-year Business Plan, and a Board education policy. We also hired an independent specialist consulting firm to measure the performance and cost-effectiveness of our administration. The results will be considered by the Board in 2001. These initiatives are in keeping with a movement across Canada, fostered by the provincial and federal governments and several national pension administration organizations, to improve pension plan governance.

During the year we continued to make progress toward self-governance. The provincial government issued a discussion paper making proposals for governance of a future LAPP that will be independent of government. The unions who represent the majority of Plan members met and formulated their position on the proposals. In the latter part of the year, representatives of LAPP employers began to meet to consider their position, and we are hopeful that in 2001, the various issues can be resolved and further progress toward self-governance can be achieved.

Part of improving governance is to ensure that Plan members and employers are well-informed about their pension plan. In 2000, we were proud to receive an Award of Excellence for our communications plan from the International Association of Business Communicators. Also, our new Web site is now "live" and awaiting your visit at www.lapp.ab.ca. Please visit the Web site or call or write to us to ask any questions, or to give us your views. As always, in the final analysis, this is your pension plan.

Ronald J. Liteplo
Chief Executive Officer
Local Authorities Pension Plan Corporation

Message from the CEO

"Part of improving governance is to ensure that Plan members and employers are well-informed about their pension plan."

lapp.ab.ca

With over 125,000 people involved in LAPP, it's important that we keep you up-to-date as efficiently as possible. As internet access is increasingly available, it can be an ideal way for us to communicate with you directly. In 2000 we re-vamped the LAPP Web site to make it more usable and informative with areas specifically developed for members, retirees and employers. We welcome your feedback – if there is any other information you would like to see on the site, please let us know.

Management Discussion and Analysis

This section focuses on the Plan's Investment Management and Administration

Investment Management

LAPP's assets are held in trust by the Provincial Treasurer and invested for the benefit of the Plan's beneficiaries according to the Statement of Investment Policies and Goals set by the Board of Trustees. Day-to-day management of investments is handled by the Investment Management Division (IMD) of Alberta Treasury.

The key element in the financial health of the Plan is the growth of investments to fund future pension promises. Investment policies have been implemented so assets will be selected that will grow at least as fast as the liabilities.

The Year In Review

Investments increased in 2000 by $656 million to $9,430 million. The growth was primarily attributable to investment income of $395 million and a group transfer of $289 million in assets.

Investment Objective

To meet the long-term funding needs of the Plan it is expected investments would have to earn at least 4.5% more than inflation on a long-term basis, or about a 7.25% required return including inflation. While there have been individual years where this objective has not been met, on a long-term basis the Fund has more than exceeded the investment objective. As a result, the financial position of the Plan has improved significantly over the last six years.

Investment Philosophy

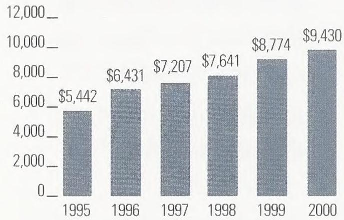
A cornerstone of the Plan's investment philosophy is prudent Fund management. Policies have been adopted to manage investment risk through diversification and quality constraints. Investment policies take into consideration the liability structure of the Plan, and focus on long-term historical return relationships. However, investments with the greatest growth rate, such as stocks, often experience the greatest volatility. A certain level of short-term volatility is therefore accepted to maintain longer-term growth prospects.

Change in Asset Mix

The key policy decision is the asset mix. This means choosing the allocation to various types of investments, such as fixed income (bonds), Canadian equities (stocks), non-Canadian equities and real estate. A review of the Plan's investment policies is undertaken every year although changes to the asset mix are made infrequently.

Market Value – Investments

(millions)

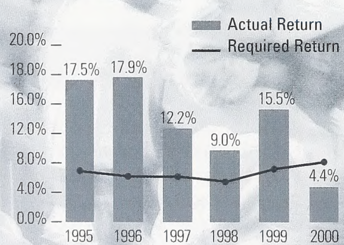


Compound Annualized Return

Ending December 31, 2000

	Years 1	2	3	4	8
Total Fund	4.4%	9.8%	9.6%	10.2%	11.8%
CPI	3.2%	2.9%	2.3%	1.9%	1.7%

Annual Return (%)



Asset Mix (%)

December 31, 2000

	Policy Asset Mix		Actual	
	2000*	**1999**	**2000**	**1999**
Fixed Income				
Cash & Short-term	2.0	2.0	2.7	0.7
Long-term	28.0	38.0	27.6	34.2
Real Return Bonds	5.0	-	5.2	-
Total	**35.0**	**40.0**	**35.5**	**34.9**
Equities				
Canadian	25.0	30.0	26.4	34.0
United States	17.5	12.5	15.2	10.0
International	17.5	12.5	17.3	15.5
Real Estate	5.0	5.0	5.6	5.6
Total	**65.0**	**60.0**	**64.5**	**65.1**

* A new policy was adopted in 2000 and the portfolio is under transition to meet the new policy target in 2001.

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Management Discussion and Analysis

During the last year, the asset mix policy was reviewed in light of the changes to the foreign property limits established under the Federal *Income Tax Act* and funding requirements of the Plan. The Board moved to increase overall equity exposure of the Plan from 55% to 60%. This will increase the probability of meeting the growth requirements of the Plan. The non-Canadian equity exposure was increased. The increased non-Canadian equity exposure will reduce the risk of the Plan by increasing the overall diversification of the Plan's equity investments. The Canadian equity market suffers from both concentration, with a small number of companies accounting for a large portion of the market's capitalization, and a heavy focus on a few industry groups. Canada only represents about 2.5% of world stock market capitalization and therefore investing outside Canada increases the investment opportunity possibilities and results in a more diversified portfolio. In addition, the Board also adjusted the fixed income portfolio and added real return bonds. This is also expected to improve the overall risk/return trade-off of the Plan.

Implementation of Investment Policy

Investments are made through the Investment Management Division (IMD) of Alberta Treasury. IMD provides a range of investment products and services to meet the needs of the Plan. Further, IMD operates on a sufficiently large scale that the cost of investing is very low compared with other investment organizations in Canada. The key to maintaining this relationship over time is investment performance and satisfaction with the client service provided by IMD. Each product provided by IMD and the overall fund performance is measured against a clearly defined market benchmark. Performance is reviewed quarterly with emphasis on the one-year and four-year measurement periods.

"Equity under-performance in 2000 was partially offset by strong performance in fixed income markets, particularly longer-term bonds and real return bonds."

Performance

Overall investment returns in 2000 were substantially lower than in recent years. The key reason was generally poor equity performance in nearly all equity markets. Canada was the only major equity market that managed a positive return for 2000. Equity under-performance in 2000 was partially offset by strong performance in fixed income markets, particularly longer-term bonds and real return bonds. The Fund did not meet its long-term investment return objective over the one-year period, however it has exceeded that objective over the last four- and eight-year periods.

Performance by the investment manager (IMD) was positive when compared with the Fund's investment benchmarks. On a one-year basis, IMD out-performed the benchmark by 10 basis points.
A policy benchmark has been in place since 1996 and, on a four-year basis, IMD has under-performed the benchmark by 30 basis points.

The value added in 2000 came primarily from over-performance in fixed income and the Canadian equity component.

Annual Return (%)

	2000	1999	1998	1997
Total Fund	4.4	15.5	9.0	12.2
Policy Return	4.3	13.3	11.3	13.4
Consumer Price Index	3.2	2.5	1.0	1.6
Short-term fixed income	5.6	5.0	5.0	3.7
SC 91-Day T-Bill Index	5.5	4.7	4.7	3.2
Long-term fixed income	11.0	-0.9	9.2	9.3
SC Universe Bond Index	10.2	-1.1	9.2	9.6
Canadian Equities	9.4	28.1	-4.0	14.8
TSE 300	7.4	31.7	-1.6	15.0
Foreign Equities	-9.0	28.7	25.6	15.2
50% S&P 500 and 50% MSCIEAFE	-8.4	17.2	33.6	20.7
Real Estate	7.2	7.4	12.6	20.8
Russell Canadian Property Index	11.8	10.7	16.0	19.0

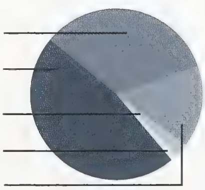
Compound Annualized Return (%)

	1 yr	2 yr	3 yr	4 yr	8 yr
Total Fund	4.4	9.8	9.6	10.2	11.8
Policy Return	4.3	8.7	9.5	10.5	12.2
Consumer Price Index	3.2	2.9	2.3	1.9	1.7
Short-term fixed income	5.6	5.3	5.2	4.8	5.5
SC 91-Day T-Bill Index	5.5	5.1	5.0	4.5	5.2
Long-term fixed income	11.0	4.9	6.3	7.0	9.1
SC Universe Bond Index	10.2	4.4	6.0	6.9	9.0
Canadian Equities	9.4	18.4	10.4	11.5	15.4
TSE 300	7.4	18.9	11.7	12.5	15.3
Foreign Equities	-9.0	8.2	13.7	14.1	14.4
50% S&P 500 and 50% MSCIEAFE	-8.4	3.6	12.8	14.7	16.1
Real Estate	7.2	7.3	9.0	11.9	5.3
Russell Canadian Property Index	11.8	11.2	12.8	14.2	7.8

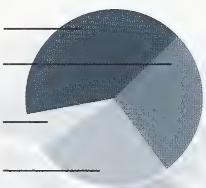
Management Discussion and Analysis

Summary of Fixed Income Holdings

(Issued and Guaranteed by)



Management Structure in Canadian Equities



Fixed Income Investments

The fixed income component has allocations to bonds, mortgages, real return bonds and cash. All the components are managed internally within IMD.

Overall, fixed income investments slightly out-performed their benchmark. Within the fixed income component, bonds out-performed their benchmark by returning 10.8%, while mortgages returned 11.6% versus 10.2% for the Scotia Capital Bond Universe index. Cash/short term investments returned 5.6% versus a benchmark of 5.5%.

Canadian Equity Investments

The Plan invests in Canadian equities through several strategies including both indexed and active mandates. TSE 300 Index and core strategies are managed internally by IMD while the large cap active strategy pool, which invests in companies with a large market capitalization, and the small cap active strategy pool are managed by external investment advisors.

The total Canadian equity return was 9.4% versus 7.4% for TSE 300 Index. The full TSE 300 Index strategy is intended to replicate the return of the TSE 300 market index, but in 2000 it managed a modest out-performance returning 8.0%. The internally managed core pool returned 3.4%, however under-performance in this pool was more than offset by the externally managed products. The external large cap managers returned 17.6% and the small cap managers returned 14.9%, both well ahead of the TSE 300 Index and the 7.3% return generated by the Nesbitt/Burns small cap index.

Top 10 Canadian Equity Holdings

December 31, 2000

Company	%
Nortel Networks	15.0
Royal Bank of Canada	3.3
BCE Inc.	3.3
Toronto Dominion Bank	3.0
Bombardier Inc.	2.6
Bank of Nova Scotia	2.1
Bank of Montreal	1.9
Manulife Financial Corp.	1.9
Canadian Imperial Bank of Commerce	1.7
Talisman Energy Inc.	1.6

Management Discussion and Analysis

Foreign Equity Investments
The foreign equity allocation was divided by policy into equal allocations to the US and to non-North American equity markets. Within the non-North American segment, mandates are divided into either regional (e.g. Europe) where the manager invests solely within the region, or multi-regional (e.g. Europe, Australia and Far East) where the manager may invest across the different regions.

US Equities
The Plan's investments in the US are allocated approximately equally between passive (index) and active strategies. A significant portion has been invested in the internally managed derivative pool to manage the Fund's exposure to foreign equity relative to the Federal *Income Tax Act* limits. While these limits were increased in 2000 and on January 1 2001, the derivative structures were retained as the policy allocation to foreign equity has been increased from 25% to 35% in 2000.

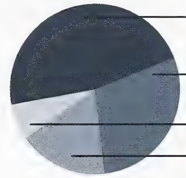
After an exceptional five years, the S&P 500 Index in Canadian dollar terms returned -5.8%. LAPP's US equity investments generated a return of -4.4% in 2000. The derivative pool returned -5.7% while the passive pool had a return of -5.8%. The active management pool returned -3.9% for the year.

Non-North American Equities
The non-North American equity component includes an allocation to both developed and emerging markets. Roughly a third is allocated to index based strategies with a portion of that allocation in a derivative pool to manage the Fund's exposure to foreign equity relative to the federal *Income Tax Act* limits. The remaining two-thirds (including all of the emerging market allocation) are allocated to external active managers.

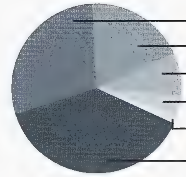
Non-North American markets also had a difficult time after a strong couple of years, returning -11.2% in 2000 while emerging markets had a -28% return. The non-North American equity component had a -12.9% return. The under-performance was attributable to the Fund's exposure to emerging markets and to active managers. As a group, active managers under-performed, particularly in the Pacific Basin region which gave up some of the extraordinary gains made in 1999.

Real Estate Investments
The real estate component provides diversification relative to the equity and fixed income markets. The real estate return in 2000 was 7.2%. Performance is measured against the Russell Canadian Property Index, which is based on net operating income and omits major expenses such as capital expenditures and tenant improvements. Fund returns are calculated after all expenses have been deducted. The Russell Index returned 11.8% and the real estate component's return was 12.2% if calculated on the same basis.

Summary of Foreign Equity Holdings



Real Estate



Top 10 US Equity Holdings

December 31, 2000

Company	%
General Electric Co.	3.3
Citigroup Inc.	2.4
Pfizer Inc.	2.3
Exxon Mobil Corp.	2.2
Microsoft Inc.	2.1
Cisco Systems Inc.	1.7
American International Group Inc.	1.7
Merck & Company Inc.	1.6
Bristol Myers Squibb Company	1.4
SBC Communications Inc.	1.4

Top 10 International Equity Holdings

December 31, 2000

Company	%
Vodafone Group	2.4
Nokia Corporation	1.7
Glaxosmithkline	1.7
Nestle	1.6
Total Fina Elf	1.5
HSBC Holdings	1.4
Novartis	1.4
BP Amoco	1.3
Alcatel	1.3
Roche Holdings Ltd.	1.2

Management Discussion and Analysis

"During the year, specifications were drafted for a termination options package to be provided in 2001. The existing system will be used to generate detailed estimates of the value of options available to members upon leaving the Plan before qualifying for retirement."

Administration Report

Alberta Pensions Administration (APA) Corporation provides administration for the Local Authorities Pension Plan (LAPP) by collecting contributions and keeping accurate and secure records, as well as paying benefits to pensioners and members who are leaving LAPP. APA also provides Plan information to members and employers and supports the activities of the Board of Trustees.

During 2000 APA made progress toward a new computing system as well as undertaking initiatives to improve the quality and security of current service to customers.

APEX Project for a new pension administration system

With the APEX (Alberta Pensions Excellence) project, 2000 was a year of re-evaluating options for a new system, updating business specifications for a Request for Proposal (RFP), and evaluating RFP bids. Developments regarding the project in 2001 will be announced on LAPP's Web site.

Maintaining and Improving Current Service

To mitigate risk associated with operating APA's current system, a new IBM AS/400 server was purchased and installed in June. Repatriation of pensioner payment applications and data from the KPMG mainframe in Ontario to Alberta Innovation and Science was successfully completed by mid-year. Both projects were carried out without any disruption of service to customers.

During the year, specifications were drafted for a termination options package to be provided in 2001. The existing system will be used to generate detailed estimates of the value of options available to members upon leaving the Plan before qualifying for retirement.

Performance Measurements

A backlog in optional service costings was overcome in May, 2000, helping performance measures to improve in the second and subsequent quarters.

Members received their Annual Statements much earlier than in the previous year, when difficulties associated with the processing system disrupted distribution. By March 31, 2000, about 75% of the statements were distributed. By the end of the second quarter, virtually all statements were distributed.

Service Envelope

In the fourth quarter, APA presented a service envelope proposal to the LAPP Board of Trustees and other pension boards recommending two tiers of service levels. Tier one services are included in the per member cost and tier two services are charged on a user pay basis. This is being done in the interest of fairness between plans, and to enable APA to more effectively plan for providing both regular and supplementary services.

Management Discussion and Analysis

Surveys

Results of the annual Quantitative Service Measurement (QSM) survey of Canadian public sector pension administrators showed APA continues to be one of the most cost-effective pension plan administrators of similar size. Service standards also compare favorably with other QSM participants. The 2000 employer survey conducted by APA in early 2001 received responses from 36% of LAPP employers. The overall level of satisfaction was 33% very satisfied and 57% satisfied, compared to 24% very satisfied and 58% satisfied responses in 1999. The chart below shows a high level of LAPP employer satisfaction in all three areas surveyed.

Communications

Extensive communications were required for the major Plan changes that came into effect September 1, 2000. Announcements went out to employers and members immediately upon finalization of government approval of the changes. This helped some members adjust the timing of their employment termination so as to qualify under existing rules or new rules.

Updates to the LAPP employer manual and forms manual were provided to employers during the year, as well as new information sheets. Many revisions were required as a result of the Plan changes in September as well as the elimination of re-employment rules effective January 1, 2001. APA provided updated materials for the upgraded LAPP Web site, and upgraded its own Web site (www.apaco.ab.ca) with content of interest to all of the Plans APA administers. There were 20,571 visitors to the LAPP Web site, up from 8,708 in 1999.

During the year, 117 LAPP member information seminars and 34 LAPP employer workshops were provided. This included a special series of employer workshops in June and July with advance information regarding the anticipated Plan changes which went into effect in September.

Organizational Transformation

During 2000 APA upgraded staff training, commenced a comprehensive job evaluation project, and expanded the Recognition Awards program. The performance management program called "Targeting Achievement" was adapted to clearly link individual and business unit goals with corporate goals.

"During the year, 117 LAPP member information seminars and 34 LAPP employer workshops were provided. This included a special series of employer workshops in June and July with advance information regarding the anticipated Plan changes which went into effect in September."

2000 Survey Results

	Very Satisfied	Satisfied	Total
Pension services	32% (26%)	57% (59%)	89% (85%)
Delivery	40% (41%)	50% (48%)	90% (89%)
Communications	30% (29%)	66% (59%)	96% (88%)

* 1999 results in ( )

Monthly Payment Distributions

as at December 31, 2000

Dollar Value ($) Per month	Member Pensions	Spouse's Pensions	Total
1 to 999	17,725	1,125	18,850
1,000 to 1,999	5,390	180	5,570
2,000 to 2,999	2,005	51	2,056
3,000 to 3,999	543	2	545
4,000 and over	103	-	103
Total	**25,766**	**1,358**	**27,124**

New Pensioners

	2000	1999
Retirements*	334	285
Early Retirements	1,174	1,118
Disability Retirements	34	40
Death Benefits to Spouses	61	62
Total	**1,603**	**1,505**

* At age 65 or with the 85 factor.

Retirement Choices

	2000	1999
Normal	129	124
Single Life	110	101
Joint Life	1,034	967
Guaranteed Term	330	313
Total	**1,603**	**1,505**

Management's Responsibility for Financial Reporting

The financial statements and information in the 2000 Annual Report are the responsibility of the Provincial Treasurer and Alberta Pensions Administration Corporation and have been approved by management.

The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 2000 Annual Report that relates to the operations and financial position of the Local Authorities Pension Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, both the Provincial Treasurer, acting in the capacity of investment manager, and Alberta Pensions Administration Corporation, acting in the capacity of pension administrator, maintain a system of internal accounting controls comprising written policies, standards, and procedures, and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements. His examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Peter Kruselnicki, P.Eng.
Deputy Provincial Treasurer

George Buse
Chief Operating Officer
Alberta Pensions Administration

Auditor's Report

To the Local Authorities Pension Plan Board of Trustees

I have audited the statement of net assets available for benefits and accrued benefits of the Local Authorities Pension Plan as at December 31, 2000 and the statements of changes in net assets available for benefits, changes in accrued benefits and changes in actuarial surplus for the year then ended. These financial statements are the responsibility of the plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the plan as at December 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Peter Valentine

FCA
Auditor General

Edmonton, Alberta
March 2, 2001

Financial Statements Local Authorities Pension Plan

December 31, 2000

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2000
($ thousands)

	2000	1999
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 9,429,943	$ 8,773,571
Contributions receivable (Note 6)	14,343	9,963
Accrued investment income	1,548	-
	9,445,834	8,783,534
Liabilities		
Due to ENMAX Corporation (Note 7)	85,700	-
Accounts payable (Note 8)	6,611	2,876
	92,311	2,876
Net assets available for benefits	9,353,523	8,780,658
Asset fluctuation reserve	(58,800)	(461,700)
Actuarial value of net assets available for benefits	9,294,723	8,318,958
Accrued Benefits		
Actuarial value of accrued benefits	8,410,900	7,438,600
Actuarial surplus	**$ 883,823**	**$ 880,358**

See accompanying notes and schedules.

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2000
($ thousands)

	2000	1999
Increase in assets		
Investment income (Note 9)	$ 394,802	$ 1,176,787
Contributions (Note 10)	316,634	264,314
Group Transfer (Note 11)	289,286	-
Total increase in assets	1,000,722	1,441,101
Decrease in assets		
Pension benefits	286,515	274,058
Refunds to members	45,724	25,675
Transfer to ENMAX Corporation (Note 7)	85,700	-
Transfers to other plans	1,406	665
Interest on refunds of additional contributions	(12)	55
Plan expenses (Note 12)	8,524	9,105
Total decrease in assets	427,857	309,558
Increase in net assets for the year	572,865	1,131,543
Net assets available for benefits at beginning of year	8,780,658	7,649,115
Net assets available for benefits at end of year	**$ 9,353,523**	**$ 8,780,658**

See accompanying notes and schedules.

Statement of Changes in Accrued Benefits

For the year ended December 31, 2000 ($ thousands)

	2000	1999
Increase in accrued benefits		
Interest accrued on benefits	$ 597,800	$ 524,800
Benefits earned	344,500	281,200
Group transfer* (Note 11)	266,500	-
Plan improvements* (Note 16)	138,300	-
Experience loss* (Note 13a)	44,100	-
Increase in accrued benefits	1,391,200	806,000
Decrease in accrued benefits		
Benefits paid including interest	343,400	310,800
Transfer to ENMAX Corporation (Note 7)	75,500	-
	418,900	310,800
Net increase in accrued benefits	972,300	495,200
Accrued benefits at beginning of year	7,438,600	6,943,400
Accrued benefits at end of year (Note 13)	**$ 8,410,900**	**$ 7,438,600**

** Represent results of an actuarial valuation as at December 31, 1999 which was completed subsequent to the release of financial statements for 1999.*

See accompanying notes and schedules.

Statement of Changes in Actuarial Surplus

For the year ended December 31, 2000 ($ thousands)

	2000	1999
Actuarial surplus at beginning of year	$ 880,358	$ 505,415
Increase in net assets available for benefits	572,865	1,131,543
Net decrease (increase) in asset fluctuation reserve	402,900	(261,400)
Net increase in accrued benefits	(972,300)	(495,200)
Actuarial surplus at end of year	**$ 883,823**	**$ 880,358**

See accompanying notes and schedules.

Note 1
Summary Description of the Plan

The following description of the Local Authorities Pension Plan is a summary only. For a complete description of the plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-30.7, Statutes of Alberta 1993 and Alberta Regulation 366/93, as amended.

(a) General
The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, school divisions and districts, colleges and technical institutes.

(b) Funding
Current and prior service costs are funded by employers and employees at rates, which are expected to provide for all benefits payable under the plan. The rates for employers are 1.0% more than the rates for employees. There were no changes in rates in 2000. The rates in effect at December 31, 2000 were 4.025% of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 5.90% for the excess for employees, and 5.025% of pensionable earnings up to the YMPE and 6.90% for the excess for employers. The rates are to be reviewed at least once every three years by the board based on recommendations of the plan's actuary.

(c) Retirement Benefits
The plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess. The maximum service allowable under the plan is 35 years. Unreduced pensions are payable to members who retire with at least two years of service and have either attained age 65, or age 55 and the sum of their age and service equals 85. Reduced pensions are payable to members retiring early.

(d) Disability Benefits
Pensions are payable to members who become totally disabled and retire early with at least two years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least two years of service.

(e) Death Benefits
Death benefits are payable on the death of a member if the member had at least two years of service. The benefits may take the form of a survivor pension, if the beneficiary is a spouse, or a lump sum payment. The beneficiary of a deceased member with fewer than two years of service is entitled to receive death benefits in the form of a lump sum payment.

(f) Termination Benefits
Members who terminate with at least two years of service and who are not immediately entitled to a pension may receive the commuted value for all service plus excess contributions if applicable, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of service receive a refund of their contributions and interest.

(g) Prior Service and Reciprocal Transfers
All prior service purchases are to be cost-neutral to the plan.

Transferred-in service will be on an actuarial reserve basis and transfers out will receive the greater of the termination benefits or commuted value for all service.

(h) Cost-of-Living Adjustments
Pensions payable are increased each year by an amount equal to 60% of the increase in the Alberta Consumer Price Index.

(i) Income Taxes
The plan is a registered pension plan as defined in the *Income Tax Act*. The plan's registration number is 0216556.

Note 2
Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation
These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Treasury. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The plan's percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	2000	**1999**
Canadian Dollar Public Bond Pool	24.7	31.8
Canadian Pooled Equities Fund	39.8	47.8
Domestic Passive Equity Pooled Fund	28.0	39.7
External Managers Fund	34.8	38.3
EAFE Structured Equity Pooled Fund	35.8	28.7
Floating Rate Note Pool	1.4	1.6
Private Equity Pool	53.5	53.5
Private Mortgage Pool	41.1	39.6
Private Real Estate Pool	40.1	39.4
US Passive Equity Pooled Fund	64.5	38.3
United States Pooled Equities Fund	40.8	39.7
US Structured Equity Pooled Fund	-	27.6

(b) Valuation of Assets and Liabilities
Investments are stated at fair value. The methods used to determine fair value of investments held either by the plan or by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Note 2 - Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Assets and Liabilities (continued)

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Treasury.

The fair value of private equities is estimated by Alberta Treasury.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To reduce the impact of market volatility on the plan's funded status, asset values are adjusted by an asset fluctuation reserve. Assets for the previous two years are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of assets is determined by averaging three years' values, current market value and the projected asset values.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

(f) Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

Note 3
Investments (Schedules A to C)

Investments are summarized as follows:

	2000 ($ thousands)	%	1999 ($ thousands)	%
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 231,726	2.5	$ 64,548	0.7
Fixed Income Securities				
Canadian Dollar Public Bond Pool (Schedule A)	2,181,173	23.1	2,554,167	29.1
Real Rate of Return Bonds (b)	487,987	5.2	-	-
Private Mortgage Pool (c)	398,021	4.2	402,532	4.6
Floating Rate Note Pool (d)	28,246	0.3	40,126	0.5
Corporate	14,195	0.2	-	-
Total deposits and fixed income securities	3,341,348	35.5	3,061,373	34.9
Canadian Equities				
Canadian Pooled Equities Fund (Schedule B)	978,110	10.4	1,262,893	14.4
Domestic Passive Equity Pooled Fund (e)	635,229	6.7	1,002,939	11.4
External Managers Fund (Canadian) (Schedule C)	835,926	8.9	672,157	7.7
Private Equity Pool (f)	42,844	0.4	41,446	0.5
	2,492,109	26.4	2,979,435	34.0
Foreign Equities				
External Managers Fund (International) (Schedule C)	1,465,527	15.5	1,083,104	12.3
External Managers Fund (United States) (Schedule C)	779,509	8.3	515,684	5.9
EAFE Structured Equity Pooled Fund (g)	166,223	1.8	282,835	3.2
US Passive Equity Pooled Fund (h)	652,023	6.9	270,667	3.1
United States Pooled Equities Fund	1,521	-	2,602	-
US Structured Equity Pooled Fund	-	-	86,376	1.0
	3,064,803	32.5	2,241,268	25.5
Real Estate				
Private Real Estate Pool (i)	531,683	5.6	491,495	5.6
Total equities and real estate	6,088,595	64.5	5,712,198	65.1
Total Investments	**$9,429,943**	**100.0**	**$ 8,773,571**	**100.0**

Note 3 - Investments (Schedules A to C) (continued)
(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) Real rate of return bonds are issued or guaranteed by the Government of Canada, bear interest at a fixed rate adjusted for inflation, and have terms to maturity of over 20 years.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long-term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage. As at December 31, 2000, mortgages held by the pool have an average effective market yield of 7.27% per annum (1999: 7.95% per annum) and the following term structure based on principal amount.

Under 1 year: 8% (1999: 8%); 1 to 5 years: 27% (1999: 28%); 5 to 10 years: 28% (1999: 29%); 10 to 20 years: 23% (1999: 22%); and over 20 years: 14% (1999: 13%).

(d) The Floating Rate Note Pool is managed with the objective of generating floating rate cash flows needed for the swap obligations of participants with structured investments. Through the use of interest rate swaps, the pool provides investment opportunities in high quality floating rate instruments with remaining term to maturity of ten years or less.

(e) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (TSE) 300 Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the TSE 300 Index.

(f) The Private Equity Pool is in the process of orderly liquidation.

(g) The EAFE (Europe, Australia and Far East) Structured Equity Pooled Fund is managed with the objective of providing investment returns comparable to the total return of the Morgan Stanley Capital International EAFE Index. The pool provides exposure to foreign markets in Europe, Australia and Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool (see Note 3d) to generate the floating rate cash flows needed for its equity swap obligations.

(h) The US Passive Equity Pooled Fund is managed with the objective of attaining investment returns comparable to Standard & Poor's (S & P) 500 Total Return Index over a four-year period. The portfolio is comprised of publicly traded equities in the United States similar in weights to the S & P 500 Index. To enhance investment returns with no substantial increase in risks, the pooled fund also invests in futures, swaps and other structured investments.

(i) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over the long-term. Real estate is held through intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification, by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the pool provides diversification from the securities market.

Note 4
Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a policy asset mix of 35% fixed income instruments, 60% equities and 5% real estate. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

Note 5
Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian

Note 5 - Derivative Contracts (continued)
currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Stock futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2000.

	2000		1999	
	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	($ thousands)			
Equity index swap contracts	$ 1,116,494	$ (25,680)	$ 1,055,488	$ 77,240
Bond index swap contracts	174,008	1,090	434,534	(2,892)
Interest rate swap contracts	259,455	(4,070)	284,178	(4,211)
Forward foreign exchange contracts	188,798	133	108,112	653
Equity index futures contracts	1,579	7	2,604	74
	1,740,334	$ (28,520)	1,884,916	$ 70,864
Cross-currency interest rate swap contracts (b)	806,456		654,107	
	$ 2,546,790		$ 2,539,023	

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).
(b) As at December 31, 2000, the combined value of cross-currency interest rate swaps and underlying securities amounted to $ 813,775,000 (1999: $651,936,000).

All derivative contracts mature within one year except for bond index swaps, cross-currency swaps and interest rate swaps with a notional amount of $715,041,000 that mature between 1 and 3 years and $240,819,000 that mature over 3 years.

Note 6
Contributions Receivable

	2000	1999
	($ thousands)	
Employers	$ 7,819	$ 5,428
Employees	6,524	4,535
	$ 14,343	**$ 9,963**

Note 7
Due to and Transfer to ENMAX Corporation

In December 2000, the Lieutenant Governor in Council approved the withdrawal of all active members of ENMAX Corporation from the plan effective December 31, 2000. In accordance with section 18(1) of Schedule 1 to the Public Sector Pension Plans (Legislative Provisions) Regulation (AR 365/93), an initial transfer of approximately 80% of the estimated apportioned assets was made to the ENMAX Corporation Pension Plan in January 2001. The final transfer will be made after the actuarial amount to be transferred has been determined by the plan's actuary. The total apportioned assets and liabilities to be transferred estimated to amount to $85,700,000 and $75,500,000 respectively have been accrued in these financial statements. The excess of total apportioned assets over liabilities represents the total apportioned plan surplus to be transferred to ENMAX. All rights of ENMAX Corporation and its active employees in relation to the plan are extinguished after the final transfer has been made.

Note 8
Accounts Payable

	2000	1999
	($ thousands)	
Benefits	$ 67	$ 105
Refunds and transfers	6,794	1,735
Additional contribution refunds and miscellaneous	21	999
Plan expenses	(271)	37
	$ 6,611	**$ 2,876**

Note 9
Investment Income

The following is a summary of the plan's proportionate share of investment income from pooled funds and directly held investments.

	2000	1999
	($ thousands)	
Deposits and Fixed Income Securities:		
Deposit in the Consolidated Cash Investment Trust Fund	$ 5,573	$ 4,147
Canadian Dollar Public Bond Pool	264,967	(28,367)
Real Rate of Return Bonds	26,247	(431)
Private Mortgage Pool	42,649	721
Floating Rate Note Pool	2,282	89
Other	(1,153)	113
	340,565	(23,728)
Equities:		
Canadian Equities:		
Canadian Pooled Equities Fund	84,342	314,274
Domestic Passive Equity Pooled Fund	75,124	257,384
External Managers Fund (Canadian)	116,180	85,437
Private Equity Pool	12,195	6,422
Other	-	(153)
	287,841	663,364
Foreign Equities:		
External Managers Fund (International)	(191,560)	297,655
External Managers Fund (United States)	(20,109)	66,289
EAFE Structured Equity Pooled Fund	(9,068)	50,883
US Passive Equity Pooled Fund	(49,348)	29,278
United States Pooled Equities Fund	2,326	(3,255)
US Structured Equity Pooled Fund	(1,053)	6,665
Global Structured Equity Pooled Fund	-	57,836
	(268,812)	505,351
Real Estate:		
Private Real Estate Pool	35,208	31,800
	54,237	1,200,515
	$ 394,802	**$ 1,176,787**

Investment income is comprised of the following:

	2000	1999
	($ thousands)	
Net realized and unrealized gains on investments	$ 111,865	$ 669,531
Interest income	274,741	249,630
Derivative income	(67,192)	187,894
Dividend income	56,095	51,549
Real estate income	26,747	24,614
Securities lending income	1,108	1,051
Pooled funds management and associated custodial fees (Note 12)	(8,562)	(7,482)
	$ 394,802	**$1,176,787**

Note 10
Contributions

	2000	1999
	($ thousands)	
Current and prior service		
Employers	$170,694	$143,779
Employees (a)	143,754	120,079
Transfers from other plans and miscellaneous	2,186	456
	$316,634	**$264,314**

(a) Includes $5,039,000 (1999: $4,025,000) of prior service contributions.

Note 11
Group Transfer

In December 1999, the Lieutenant Governor in Council approved the transfer of certain active members from the Public Service Pension Plan (PSPP) to the Local Authorities Pension Plan (LAPP) and from LAPP to PSPP effective January 1, 2000. Accordingly the plans' actuaries calculated the amounts of assets and liabilities to be transferred from the PSPP to LAPP as a result. The amounts were determined in accordance with provisions of the Public Sector Pension Plans Act, Alberta Regulation 365/93, as amended, and actuarial assumptions approved by the respective boards for the actuarial valuations of both plans as at December 31, 1998 as follows:

	($ millions)
Assets and liabilities to be transferred as at December 31, 1998:	
Based on LAPP assumptions	$ 229.9
Based on PSPP assumptions	200.4
Average of LAPP and PSPP assumptions	215.2
Add:	
Contributions in respect of transferred members for 1999	18.3
Average market return and interest on contributions for 1999	33.0
Assets and liabilities to be transferred as at December 31, 1999:	**266.5**
Average market return from January 1, 2000 to December 1, 2000	22.8
Assets transferred from PSPP on December 1, 2000:	**$ 289.3**

Note 12
Plan Expenses

	2000	1999
	($ thousands)	
General administration costs	$ 6,654	$ 5,413
APEX project costs	293	1,968
Investment management costs	913	883
Plan restructuring costs (to move LAPP to independence)	477	702
Actuarial fees	187	139
	$ 8,524	**$ 9,105**

General administration costs and business process reengineering costs (APEX project), including plan board costs (see Note 14) were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Treasury on a cost-recovery basis to manage the plan's investment portfolio. Pooled funds management and associated custodial fees totalling $8,562,000 (see Note 9), which have been deducted from investment income of the pools, are excluded from plan expenses.

Plan restructuring costs (see Note 15) include remuneration to senior officials of Local Authorities Pension Plan Corporation as follows:

	2000	1999
	($ thousands)	
Chief Executive Officer		
Salaries and bonus	$ 156.8	$ 148.5
Benefits	0.4	0.4
Director, Pension Policy		
Salaries and bonus	78.0	65.6
Benefits	0.2	0.2
	$ 235.4	**$ 214.7**

Total plan expenses, excluding plan-restructuring costs but including pooled funds management and associated custodial fees amounted to $136 per member (1999: $142 per member).

The $6 per member cost decrease is attributed to the following factors: decrease in APEX project cost $15, decrease in investment management cost $1, increase in operating cost $5, increase in pooled funds management cost $3, and increase in plan specific cost $2.

Pooled funds management and associated custodial fees amounted to $70 per member (1999: $67 per member). These expenses have been deducted from investment income of the pools and included in the determination of investment returns for the plan (see Note 9).

Total plan expenses, excluding plan-restructuring costs but including pooled funds management and associated custodial fees amounted to 0.18% (1999: 0.18%) of assets under administration.

Note 13
Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the plan was carried out as at December 31, 1999 by William M. Mercer Limited and then extrapolated to December 31, 2000, taking into account significant changes to the plan since December 31, 1999. The December 31, 1999 valuation was completed after the financial statements of the plan for 1999 were released. As a result, the differences between the actuarial valuation results and extrapolation results as reported in 1999 are accounted for as gains and losses in 2000. The experience loss as revealed in the December 31, 1999 valuation and reported in 2000 was mainly attributed to the following factors:

- Mortality, termination and retirement experience were less favourable than assumed, and
- Current service contributions were less than normal actuarial cost.

The experience gain due to lower than expected cost-of-living adjustment was offset by the loss due to lower than assumed increases in the Yearly Maximum Pensionable Earnings.

The valuation as at December 31, 1999 was determined using the projected benefit method based on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected market conditions and other future events. This estimate was, after consultation with the plan's actuary, adopted by the Local Authorities Pension Plan Board of Trustees. The major assumptions used were:

	December 31	
	2000	1999
	Extrapolation	Valuation
	%	%
Investment return	7.25	7.25
Inflation rate	3.5	3.5
Salary escalation rate*	4.25	4.25

* Excludes merit and promotion.

Note 13 - Accrued Benefits (continued)

(b) Sensitivity of Changes in Major Assumptions

The plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the plan.

The following is a summary of the sensitivities of the plan's surplus and current service cost to changes in assumptions used in actuarial extrapolations at December 31, 2000:

	Sensitivities		
	Changes in Assumptions %	**Increase (Decrease) in Plan Surplus ($ million)**	**Increase in Current Service Cost as % of Pensionable Earnings***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ (555)	0.7%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	(308)	0.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	-1.0%	(1,393)	2.5%

* The current service cost as % of pensionable earnings as determined by the December 31, 1999 valuation is 10.8%.

Note 14
Remuneration of Board Members

Remuneration paid with respect to a total of 14 board members during the year amounted to $105,000 (1999: $103,000).

Note 15
Plan Restructuring

In June 1997, the Local Authorities Pension Plan Board of Trustees approved the development of a non-statutory pension plan to replace the existing statutory plan. In accordance with provisions and regulations of the Public Sector Pension Plans Act, the board is authorized to charge the plan, up to a certain amount, all costs incurred in connection with the development of the non-statutory plan. The amount authorized is $750,000 in 2000 and $1,072,000 in 1999. Total development costs incurred and charged to the plan in 2000 amounted to $477,000 (1999: $702,000).

Note 16
Plan Improvements

The plan received approval from the Lieutenant Governor in Council to improve benefits in 2000 for those members who leave the plan before qualifying for retirement. The improvement decreases the vesting period to two years of service from five years and provides a termination benefit of commuted value plus excess contributions for employees, if applicable, on all service. As a result of the improved vesting and termination benefits, the plan's actuary determined that the liability of the plan for accrued benefits as at December 31, 1999 would increase by $138,300,000.

Note 17
Subsequent Event

Subsequent to the year-end, the board has authorized an actuarial valuation of the plan to be carried out as at December 31, 2000. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the plan and will be accounted for as gains or losses in 2001.

Note 18
Budget Information

The accrued benefits are based on the Local Authorities Pension Plan Board of Trustees' best estimates of future events after consultation with the plan's actuary. Differences between actual results and the board's expectations are disclosed as experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

Schedule of Investments in Canadian Dollar Public Bond Pool (a) (b)

December 31, 2000
($ thousands)

	2000		1999	
	Plan's Share	Total Pool	Plan's Share	Total Pool
Deposit in the Consolidated Cash Investment Trust Fund	$ 38,093	$ 154,307	$ 18,083	$ 56,800
Public Fixed Income Securities				
Government of Canada, direct and guaranteed	562,198	2,277,359	684,147	2,148,862
Provincial:				
Alberta, direct and guaranteed	7,324	29,668	11,368	35,707
Other, direct and guaranteed	465,211	1,884,485	379,388	1,191,633
Municipal	30,386	123,088	28,510	89,549
Corporate	782,684	3,170,510	1,072,596	3,368,956
Private Fixed Income Securities				
Corporate	267,244	1,082,557	333,355	1,047,046
Total deposit and fixed-income securities	2,153,140	8,721,974	2,527,447	7,938,553
Receivable from sale of investments and accrued investment income	28,741	116,425	31,565	99,143
Liabilities for investment purchases	(708)	(2,867)	(4,845)	(15,218)
	28,033	113,558	26,720	83,925
	$ 2,181,173	$ 8,835,532	$ 2,554,167	$ 8,022,478

(a) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and bond-related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(b) Fixed income securities held as at December 31, 2000 had an average effective current yield of 6.07% per annum based on market value (1999: 6.47% per annum). The following term structure of these securities as at December 31 is based on principal amount.

	2000	1999
	%	%
Under 1 year	6	11
1 to 5 years	37	34
5 to 10 years	28	29
10 to 20 years	15	17
Over 20 years	14	9
	100	100

Schedule of Investments in Canadian Pooled Equities Fund (a)

December 31, 2000
($ thousands)

	2000 Plan's Share	2000 Total Pool	1999 Plan's Share	1999 Total Pool
Deposit in the Consolidated Cash Investment Trust Fund	$ 1,197	$ 3,009	$ 2,656	$ 5,550
Canadian Public Equities (b)				
Common shares and rights:				
Communications and media	37,893	95,231	102,405	214,030
Conglomerates	39,366	98,932	59,977	125,354
Consumer products	31,197	78,404	40,416	84,470
Financial services	197,368	496,017	167,426	349,923
Gold and precious minerals	21,310	53,554	42,941	89,748
Industrial products	348,426	875,650	385,895	806,528
Merchandising	9,156	23,009	21,032	43,958
Metals and minerals	38,399	96,503	48,423	101,204
Oil and gas	101,857	255,983	113,080	236,341
Paper and forest products	31,713	79,700	24,882	52,005
Pipelines	8,681	21,817	16,836	35,188
Real estate and construction	9,918	24,926	33,375	69,754
Transportation and environmental services	1,104	2,775	22,796	47,643
Utilities	88,921	223,473	172,656	360,855
	965,309	2,425,974	1,252,140	2,617,001
Passive index	3,652	9,178	7,672	16,036
	968,961	2,435,152	1,259,812	2,633,037
Receivable from sale of investments and accrued investment income	9,771	24,556	4,349	9,090
Liabilities for investment purchases	(1,819)	(4,572)	(3,924)	(8,202)
	7,952	19,984	425	888
	$ 978,110	**$ 2,458,145**	**$ 1,262,893**	**$ 2,639,475**

(a) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the Toronto Stock Exchange 300 Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is managed by means such as prudent security selection and sector rotation.

(b) The industrial classifications are those used by the Toronto Stock Exchange.

Schedule of Investments in External Managers Fund (a)

December 31, 2000
($ thousands)

	External Managers 2000	External Managers 1999	2000 Plan's Share	2000 Total Pool	1999 Plan's Share	1999 Total Pool
Foreign Public Equity Pools						
Multi Region	4	4	$ 733,179	$ 2,013,072	$ 381,128	$ 919,706
Europe	3	3	521,145	1,377,161	366,130	1,018,169
Pacific Basin	2	2	211,189	584,819	317,503	882,206
Emerging Markets	1	2	14	40,506	18,343	76,055
	10	11	1,465,527	4,015,558	1,083,104	2,896,136
United States	6	5	779,509	3,147,608	515,684	1,518,742
Canadian Public Equity Pools						
Large Cap	3	3	656,765	1,200,300	507,467	1,055,108
Small Cap	4	5	179,161	478,145	164,690	466,572
	7	8	835,926	1,678,445	672,157	1,521,680
	23	24	$ 3,080,962	$ 8,841,611	$ 2,270,945	$ 5,936,558

(a) The External Managers Fund is comprised of numerous portfolios of publicly traded equities, which are managed by numerous external managers with expertise in global and Canadian equity markets. The objective of the Fund is to provide investment returns higher than the total return of the applicable Morgan Stanley Capital International, Standard & Poor's and Toronto Stock Exchange indices over a four-year period. Risk is managed by means of manager, style and market diversification.

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